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# ***IRISH LIFE INVESTMENT MANAGERS***

**Monthly Mindshare – November 2015**

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# IRISH LIFE INVESTMENT MANAGERS



Only Irish winner at 2014 European Pension Awards and



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Irish Pension Awards 2014 – ‘Investment Manager of the Year’ and ‘Alternatives Investment Manager of the Year’



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# Market Developments in October

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- **Eurozone - ECB suggests the level of existing monetary accommodation to be reassessed:** Potential to expand stimulus levels with possible further reduction in the deposit rate. ECB described its stance as moving from a 'wait and see' to 'work and assess' mode, suggesting additional policy measures will be announced in December.
- **U.S. - The Fed more upbeat and confident regarding the outlook for U.S. economy:** Previous references to risks posed by developments in global economies and markets to the US economy were removed from commentary and suggestions of a rate rise in December.
- **China - Concerns over slower growth in China and emerging markets ease:** Signs of stabilisation in Chinese data and an improvement in industrial production and exports in key Asian economies such as Taiwan and Korea. China reduced interest rates by 0.25% and bank reserve requirements by 0.5%.
- **Corporate earnings reporting seasons were mixed:** U.S. earnings to date have exceeded previously downgraded forecasts by approximately 5%. European results however have been approximately 10% below forecasts.
- **Global equities rose 7.6% (9.0% in €); Eurozone > 5 year bonds rose 1.5% and Commodities rose 1.1% (2.2% in €).**
- **The Euro weakened to 1.105 against the US\$:** Additional ECB stimulus was expected while the Fed suggested a December rate rise was possible.



# Market Performance

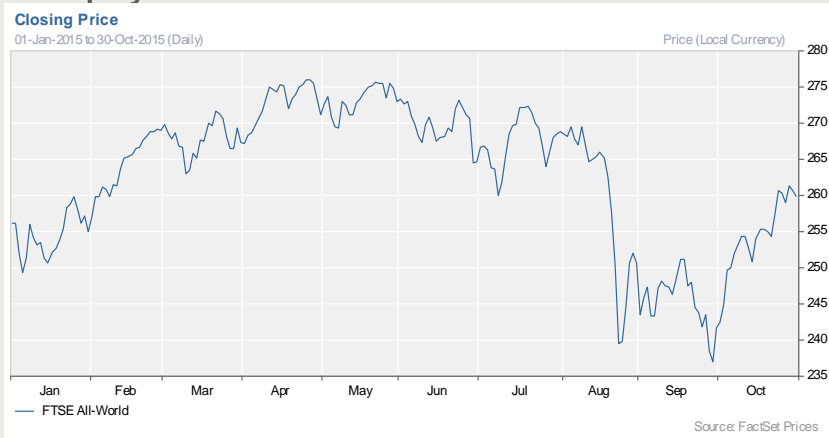
## Markets In October

	Local Returns	Euro Return
Ireland	4.8	4.8
UK	5.1	8.2
US	8.2	9.3
North America	7.9	9.1
Europe	8.1	8.2
Japan	10.9	11.2
Pacific	5.6	8.7
Emerging Markets	5.4	8.3
World	7.6	9.0
EMU Govt Bonds >5yr	1.5	1.5
Commodities	1.1	2.2

## Markets YTD

	Local Returns	Euro Return
Ireland	26.4	26.4
UK	0.4	9.0
US	2.5	12.2
North America	2.1	11.0
Europe	11.0	13.2
Japan	12.4	22.4
Pacific	-1.5	0.5
Emerging Markets	-1.8	-0.5
World	3.6	10.5
EMU Govt Bonds >5yr	3.1	3.1
Commodities	-13.1	-4.8

## Equity Markets Rebound



## German 10 Year Bond Yields Fall



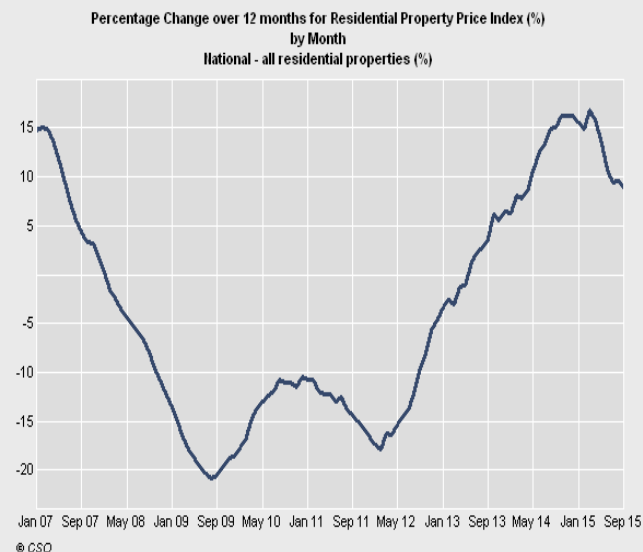
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# Economy in Focus - Ireland

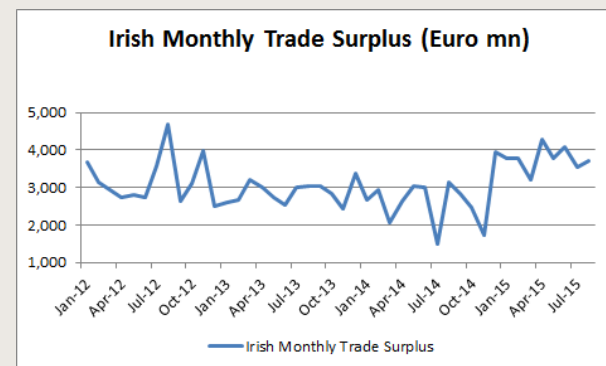
## Economy

- Economic releases generally remained positive.
- Seasonally adjusted numbers on the Live Register fell 4,100 to 337,300
- Retail sales rose 0.3% m/m and were up 8.6% y/y; core sales ex autos rose 0.7% m/m and 8.0% y/y; consumer confidence fell -0.5 to 100.6
- Industrial production remains volatile, falling -1.0% m/m but was up 14.3% y/y
- The seasonally adjusted monthly trade surplus rose €194m to €3,725m with exports down -1.4% m/m and imports down -6.0% m/m. The trade surplus is set to rise in 2015 for the first year since 2010
- Services PMI rose 0.3 to 62.4; manufacturing PMI rose 0.2 to 53.8
- National residential property prices rose 1.3% m/m and 8.9% y/y. Dublin prices rose 0.9% m/m and 6.5% y/y. Prices outside Dublin rose 1.6% m/m and 11.4% y/y
- CPI fell -0.5% m/m and -0.3% y/y
- Exchequer returns to the end of September remained strong with the government balance €2.4bn or 1.5% GDP ahead of target.
- Govt to increase spending in 2015 by €1.5bn above its previous target resulting in a forecast fiscal deficit of 2.1% for 2015
- Budget included €1.5bn of expansionary measures split 50/50 between tax cuts and expenditure increases
- The government forecast a fiscal deficit of 1.2% GDP for 2016

## Irish Residential Property Prices Rise But At Slower Pace



## Irish Monthly Trade Surplus Rises



# Economy in Focus - Eurozone

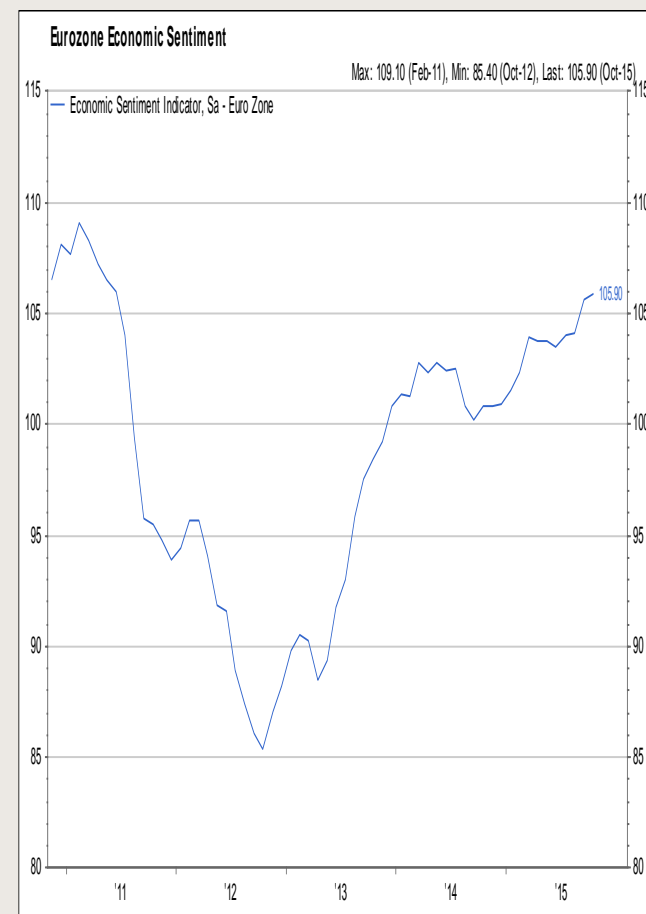
## Economy

- Data was mixed. Sentiment surveys were consistent with growth of 2% although hard data was weaker
- The composite PMI rose 0.4 to 54.0; ZEW expectations fell -2.3 to 30.1; economic confidence rose 0.3 to 105.9, a post recession high
- Industrial production fell -0.5% m/m; construction output fell -0.2% m/m; retail sales were flat m/m; consumer confidence fell -0.6 to -7.7; M3 money supply growth improved 0.1% to 4.9% y/y
- CPI was flat y/y; core inflation ex food and energy rose 0.1% to 1.0% y/y
- The German composite PMI rose 0.4 to 54.5; the IFO business climate fell -0.3 to 108.2; retail sales were flat m/m; consumer confidence fell -0.2 to 9.4; industrial production fell -1.2% m/m; factory orders fell -1.8% m/m
- French composite PMI rose 0.4 to 52.3; business confidence rose 1 to 101; industrial production rose 1.6% m/m
- In Spain, Q3 GDP rose 0.8% q/q and 3.4% y/y; the composite PMI fell -4.2 to 54.6; industrial production rose 1.5% y/y; retail sales rose 4.3% y/y
- The Italian composite PMI fell -1.6 to 53.4; industrial production fell -0.5% m/m; retail sales rose 0.3% m/m; consumer confidence rose 3.9 to 116.9

## Interest Rates

- The ECB left policy unchanged
- The ECB indicated the level of monetary accommodation being provided needed to be reassessed given the risks to inflation and growth
- All policy options within its mandate will be considered including possible further cuts in the deposit rate
- The current level of asset purchases can be adjusted in terms of size, composition and duration
- The ECB indicated it has moved from a 'wait and see' mode to a 'work and assess' mode with regard to additional stimulus
- Updated economic forecasts will be used to determine the policy decision in December with additional measures now expected

## Eurozone Economic Sentiment Improves



# Economy in Focus – U.S.

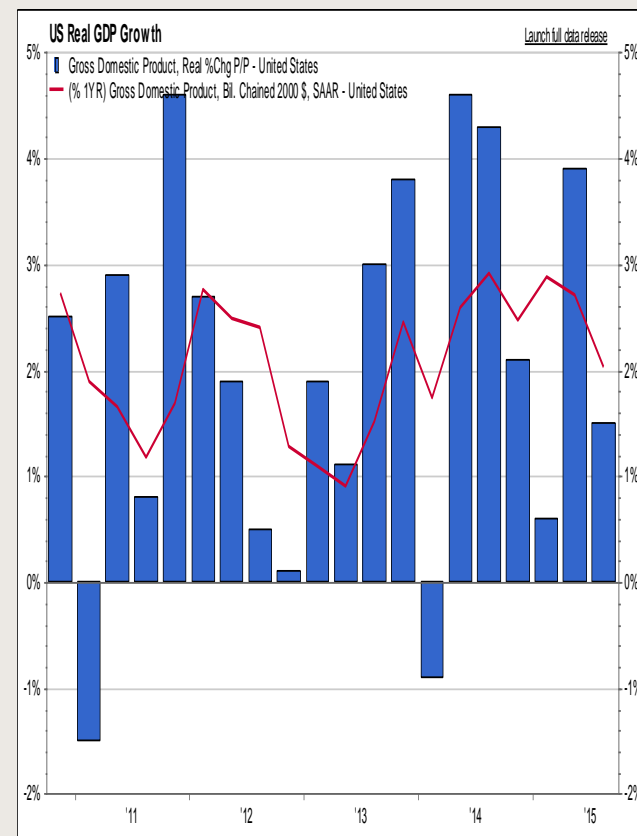
## Economy

- U.S. economic data was mixed but generally disappointing
- Q3 GDP grew 1.5% annualized; consumption grew 3.2%; business fixed investment rose 2.9%; inventory drawdown detracted 1.4% from growth
- ISM manufacturing fell -0.9 to 50.2; services fell -2.1 to 56.9; the composite PMI fell -0.5 to 55.0; small business confidence rose 0.2 to 96.1
- Non-farm payrolls rose 142,000; unemployment was unchanged at 5.1%; average hourly earnings rose 2.2% y/y; industrial production fell -0.2% m/m; factory orders fell -2.0% m/m
- Headline retail sales rose 0.1% m/m; consumer confidence fell -5.4 to 97.6
- CPI fell -0.2% m/m and was flat y/y; core CPI ex food and energy rose 0.2% m/m and 1.9% y/y
- Durable goods orders fell -1.2% m/m; orders ex transport fell -0.4% m/m; capital goods shipments rose 0.5% m/m
- House prices in the top 20 cities rose 0.1% m/m and 5.1% y/y; housing starts rose 6.5% m/m; building permits fell -5.0% m/m; new home sales fell -11.5% m/m while existing home sales rose 4.7% m/m

## Interest Rates

- The Fed left interest rates unchanged
- The tone of the statement was upbeat and confident
- The Fed indicated it will monitor upcoming data to determine if it is appropriate to raise interest rates at the December meeting
- It omitted in its statement previous references to threats posed to the US economy by global economic and financial developments
- The probability of a rate rise in December moved to 50/50

## U.S. Q3 GDP Lower, Mainly Due to Inventories





# Economy in Focus - U.K.

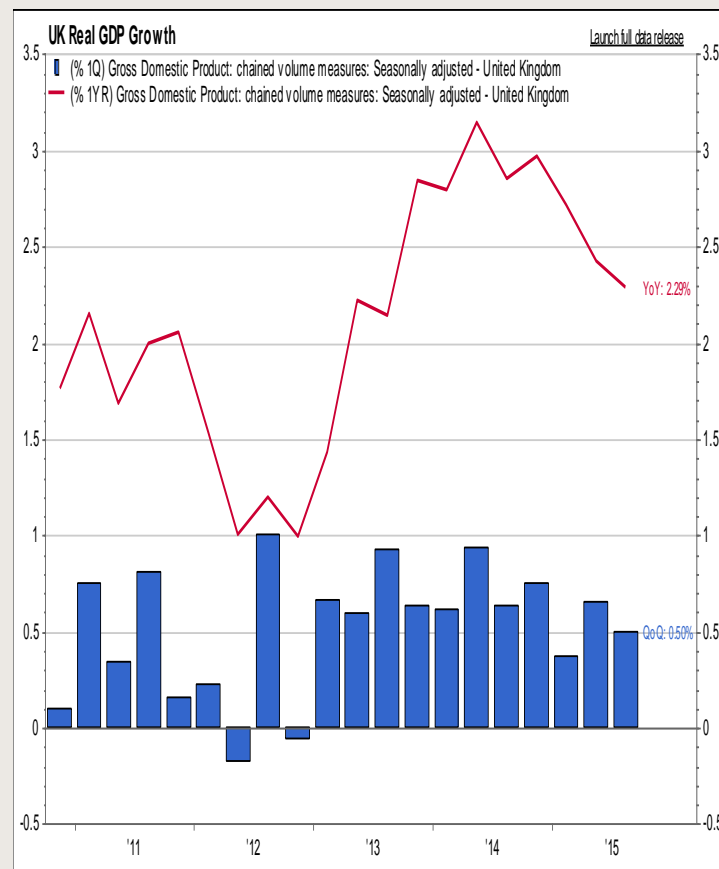
## Economy

- UK data was mixed with slower growth evident but still at a relatively high level of just over 2%
- Q3 GDP grew 0.5% q/q and 2.3% y/y; services grew 0.7% q/q; construction contracted -2.2% q/q; industrial production rose 0.3% q/q
- The composite PMI fell -1.8 to 53.3; manufacturing was flat at 51.5; services fell -2.3 to 53.3; construction rose 2.6 to 59.9
- Headline retail sales rose 1.9% m/m and 6.5% y/y, boosted by promotions related to the rugby world cup; consumer confidence fell -1 to 2
- Unemployment fell 0.1 to 5.4%; numbers employed grew 140,000 over three months from 42,000 previously; average weekly earnings ex bonuses rose 2.8% y/y from 2.9% previously
- Industrial production rose 1.0% m/m and 1.9% y/y; construction output fell -4.3% m/m and -1.3% y/y
- The Halifax house price index fell -0.9% m/m and rose 9.0% y/y
- CPI fell -0.1% both m/m and y/y

## Interest Rates

- The BoE voted 8:1 to leave policy unchanged
- The tone of the statement was marginally more dovish, noting risks of lower inflation in the near term, slowing growth and potential risks from international developments
- Low inflation however was seen as transitory and due to lower oil prices
- There were few signs evident of the emerging economy slowdown having a material impact on the UK economy
- It was believed signals from data releases since the previous meeting sent mixed messages about both the strength of the economy and risks of higher inflation
- Despite the slightly more dovish commentary, expectations for the first UK rate rise were pulled forward to Q3 2016 following suggestions by the US Fed that a December rate rise in the US was possible

## U.K. GDP Growth Slows



# Economy in Focus - Asia

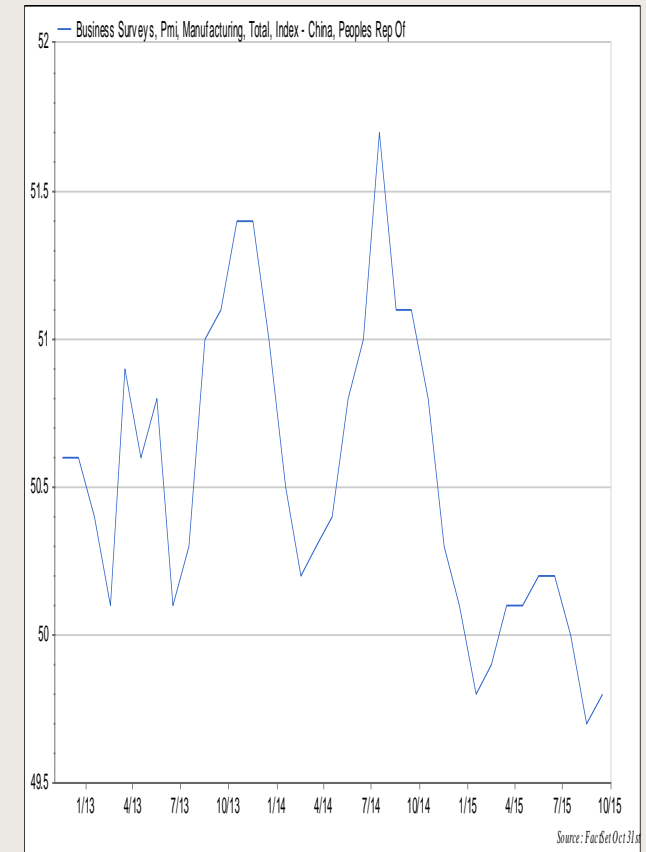
## Japanese Economy

- Economic releases disappointed early in the month but improved towards month end
- Industrial production rose 1.0% m/m; machine orders fell -5.7% m/m; retail sales fell -0.2% m/m; consumer confidence fell -1.1 to 40.6; exports rose 0.6% y/y and imports fell -11.1% y/y; the composite PMI fell -1.7 to 51.2; manufacturing PMI rose 1.5 to 52.5; the Economy Watchers survey current reading fell -1.8 to 47.5 while the outlook reading rose 0.9 to 49.1; bank lending growth slowed to 2.6% y/y from 2.8% y/y; the tertiary index rose 0.1% m/m; headline CPI was flat y/y; CPI ex fresh food and energy rose 1.2% y/y
- The Bank of Japan (BoJ) left policy unchanged despite lowering growth and inflation forecasts for the next two years and pushing out expectations for the achievement of its 2% inflation target by six months to between September 2016 and March 2017.
- The BoJ believes low inflation will prove to be transitory and improving corporate profits and rising wages will lead to increased consumption and rising prices.
- The potential for increased monetary stimulus in coming months appears to have reduced with an increase in fiscal stimulus now seen as more likely

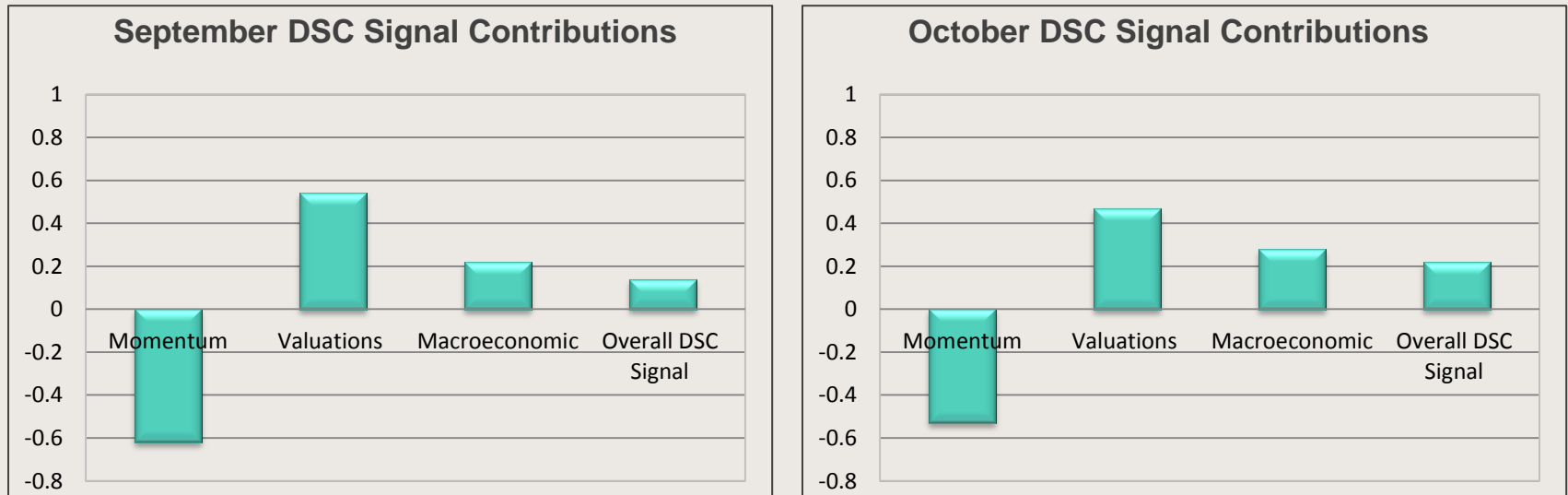
## Chinese Economy

- Chinese data was mixed but began to show some stabilisation
- Exports fell -3.7% y/y from -5.5%; imports fell -20.4% y/y from -13.8% previously
- Retail sales growth improved to 10.9% y/y from 10.8%; industrial production growth slipped to 6.2% y/y from 6.3%; fixed asset investment growth fell to 10.3% y/y from 10.9%
- Industrial profits fell -0.1% y/y from -8.8% previously
- Monthly new lending rose Rmb 240.4bn to Rmb 1050.0bn
- The Caixin manufacturing PMI was flat at 47.2; services fell -1.0 to 50.5. Official manufacturing PMI rose 0.1 to 49.8; services was flat at 53.4
- The Peoples Bank of China reduced interest rates by 0.25% and bank reserve requirements by 0.5%

## Chinese Manufacturing PMI Stabilises



# DYNAMIC SHARE TO CASH – FACTOR UPDATE FOR OCTOBER



- The overall **DSC** signal rose slightly through October – it moved from 0.14 at the end of September to 0.22 at the end of October and so remains in overall positive territory. All DSC related funds as a result continue to be fully invested in their Developed Market Shares.
- There was a pick-up in **Momentum** category with the rise in equity markets over the month
- There was a very slight pull-back in the **Valuations/Fundamentals** category over the month with the above rise in stock markets resulting in relatively lower valuations.
- The **Macroeconomic** category was largely unchanged during the month.

# DYNAMIC SHARE TO CASH - FACTORS

FACTOR CATEGORY	OBJECTIVE	INDIVIDUAL FACTOR EXAMPLES
<b>1 MOMENTUM IN MARKETS</b>	Take account of trends in shares	<ul style="list-style-type: none"><li>• 12 month share market momentum</li><li>• 200 day moving average</li></ul>
<b>2 VALUATIONS/ FUNDAMENTALS</b>	Take account of the long-term valuation of shares	<ul style="list-style-type: none"><li>• Long-term share values</li><li>• Earnings quality</li><li>• Earnings yield</li><li>• Earnings revisions</li></ul>
<b>3 GLOBAL MACROECONOMICS</b>	Take account of the influence of global economics on shares	<ul style="list-style-type: none"><li>• Real GDP growth rate</li><li>• Bond yield curve slope</li><li>• Energy price levels</li></ul>

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